

32 **CHAPTER 110 –FINANCE**

33
34 **ARTICLE VI**

35 **SFWMD INVESTMENT POLICY**

36
37 **~~DIVISION 1. INVESTMENTS~~**

38
39 **Sec. 110-81. Scope.**

40
41 (a) In accordance with Section 218.415, Florida Statutes, this article shall apply to all
42 funds held or controlled by the South Florida Water Management District as related to
43 investment activities.

44 (b) The investment policy shall apply to funds under the control of the unit of local
45 government in excess of those required to meet current expenses. The investment
46 policy shall not apply to pension funds or funds related to the issuance of debt where
47 there are other existing policies resolutions or indentures in effect for such funds.

48 (c) The management responsibility for all District funds in the investment program
49 and investment transactions is delegated to the Executive Director. The Executive
50 Director shall establish written procedures for the operation of the investment portfolio
51 and a system of internal accounting and administrative controls to regulate the activities
52 of employees.

53
54 **Sec. 110-82. Purpose.**

55
56 The purpose of this policy is to set forth the investment objectives and parameters for
57 the management of public funds of the District. These policies are designed to ensure
58 the prudent management of public funds, the availability of operating and capital funds
59 when needed, and an investment return competitive with comparable funds and
60 financial market indices. The District recognizes the importance of managing its
61 investments in a manner responsive to public trust and consistent with applicable
62 Florida Statutes.

63

64 **Sec. 110-83. Statement of Investment Objectives.**

65

66 (a) *Safety of Principal.* The foremost objective of this investment program is the
67 safety of the principal of those funds within the portfolio. Investment transactions
68 shall seek to keep capital losses at a minimum, whether they are from securities
69 defaults or erosion of market value. To attain this objective, diversification is
70 required in order that potential losses on individual securities do not exceed the
71 income generated from the remainder of the portfolio. From time to time,
72 securities may be traded for other similar securities to improve yield, maturity or
73 credit risk. For these transactions, a loss may be incurred for accounting
74 purposes, provided any of the following occurs with respect to the replacement
75 security:

76

- 77 A. Yield has been increased, or
- 78 B. Maturity has been reduced, or
- 79 C. Quality of the investment has been improved.

80

81 (b) *Maintenance of Liquidity.* The second highest priority is liquidity of funds. The
82 portfolio shall be managed in such a manner that funds are available to meet
83 reasonably anticipated cash flow requirements in an orderly manner. Periodical cash
84 flow analyses will be completed in order to ensure that the portfolio is positioned to
85 provide sufficient liquidity.

86 (c) *Return on Investment.* The third highest priority is the return on investment funds.
87 The investment portfolio shall be designed with the objective of attaining a market rate
88 of return throughout budgetary and economic cycles, taking into account the investment
89 risk constraints and liquidity needs. Return on investment is of least importance
90 compared to the safety and liquidity objectives described above. The core of
91 investments is limited to relatively low risk securities in anticipation of earning a fair
92 return relative to the risk being assumed.

93

94 Sec. 110-84. Prudence and Ethical Standards.

95 (a) The standard of prudence to be used by investment officials shall be the "Prudent
96 Person" standard and shall be applied in the context of managing the overall investment
97 program. Investment officers acting in accordance with written procedures and this
98 investment policy and exercising prudent person standards shall be relieved of personal
99 responsibility for an individual security's credit risk or market price changes, provided
100 deviations from expectation are reported to the Executive Director in a timely fashion.
101 The Executive Director shall report such deviations in a timely fashion to the District's
102 Governing Board.

103 (b) For the purposes of this section, the "Prudent Person" standard shall be defined
104 as follows:

105 Investments shall be made with judgment and care, under circumstances then
106 prevailing, which persons of prudence, discretion and intelligence exercise in the
107 management of their own affairs, not for speculation, but for investment, considering the
108 probable safety of their capital as well as the probable income to be derived from the
109 investment.

110

111 Sec. 110-85. Internal Controls.

112 (a) A system of internal controls and operational procedures that are made a part of
113 the District's operational procedures shall be established. The internal controls shall be
114 designed to prevent losses of funds, which might arise from fraud, employee error, and
115 misrepresentation, by third parties, or imprudent actions by employees. The procedures
116 shall include reference to safekeeping, bonding, repurchase agreements, separation of
117 transaction authority from accounting and recordkeeping, wire transfer agreements,
118 banking service contracts and collateral/depository agreements.

119 (b) No person may engage in an investment transaction except as authorized under
120 the terms of this policy.

121 (c) Independent auditors as a normal part of the annual financial audit to the District
122 shall conduct a review of the system of internal controls to ensure compliance with
123 policies and procedures.

124 **(d) Maturity and Liquidity Requirements.** Each year a cash flow analysis will be
125 completed to determine the acceptable allocation and balances for each of the following
126 funds. The District staff will be responsible for the cash flow analysis, which will be
127 presented to the Investment Committee for review.

128 **(e) Operating Funds.** To the extent possible, an attempt will be made to match
129 investment maturities with known cash needs and anticipated cash flow requirements.
130 Investments of current operating funds shall have maturities of no longer than 12
131 months (“Short-Term Portfolio”).

132 **(f) Core Funds.** Investments of reserves, capital funds, and other non-operating
133 funds (“Long-Term Portfolio”) shall have a term appropriate to the need for funds, but in
134 no event shall exceed five (5) years and the average duration of the portfolio as a whole
135 may not exceed three (3) years.

136

137 **Sec. 110-86. Authorized Investment and Portfolio Composition.**

138 The following are the District's authorized investments, allocation limits on security
139 types, issuers, and maturity limitations. The Executive Director shall have the option to
140 modify investment percentages from time to time based on market conditions, risk and
141 diversification investment strategies. The percentage allocation requirements for
142 investment types and issuers shall be calculated based on the original cost of each
143 investment. Asset allocation guidelines are calculated at the time of purchase.

144

145 (1) *The Florida Local Government Surplus Funds Trust Fund (SBA):* A maximum of
146 25% of available funds may be invested in the SBA. The Fund must retain its AAAM
147 rating by Standard and Poor’s or the equivalent by another rating agency.

148 (2) *United States Government Securities:*

149 a. Funds may be invested in negotiable direct obligations, or obligations the principal
150 and interest of which are unconditionally guaranteed by the United States government.

151 b. A maximum of 100% of available funds may be invested in the United States
152 government securities. The maximum length to maturity of any direct investment in the
153 United States government securities is five years from the date of purchase.

154 (3) *United States Government Agencies or Instrumentalities:*

155 a. Funds may be invested in bonds, debentures or notes which may be subject to
156 call, issued or guaranteed as to principal and interest by the United States government's
157 agencies, provided such obligations are backed by the full faith and credit of the United
158 States government.

159 b. A maximum of 100% of available funds may be invested in United States
160 government agencies. A maximum of 50% of available funds may be invested in
161 individual United States government agencies. The maximum length to maturity for an
162 investment in any United States government agency security is five years from the date
163 of purchase.

164 (4) *United States Government Sponsored Agencies:*

165 a. Funds may be invested in bonds, debentures or notes which may be subject to
166 call, issued or guaranteed as to principal and interest by United States government
167 sponsored agencies which are non-full faith and credit agencies. Those agencies are
168 limited to the following:

- 169 1. Federal Farm Credit Bank (FFCB).
- 170 2. Federal Home Loan Bank or its district banks (FHLB).
- 171 3. Federal National Mortgage Association (FNMA).
- 172 4. Federal Home Loan Mortgage Corporation (FHLMC), including Federal Home
173 Loan Mortgage Corporation participation certificates.
- 174 5. Government National Mortgage Association (GNMA).
- 175 6. Student Loan Marketing Association (SLMA).

176 b. Permitted investments shall include mortgage pass-throughs, collateralized
177 mortgage obligations, adjustable rate securities and adjustable rate mortgages.

178 c. A maximum of 80% of available funds may be invested in United States
179 government sponsored agencies.

180 d. A maximum of 35% of available funds may be invested in an individual United
181 States government sponsored agency.

182 e. The maximum length to maturity for an investment in any United States
183 government sponsored agencies security is five years from the date of purchase.

184 (5) *Interest Bearing Time Deposit or Savings Accounts:*

185 a. Funds may be invested in non-negotiable interest bearing time certificates of
186 deposit or savings accounts in banks organized under the laws of this State and/or in
187 national banks organized under the laws of the United States and doing business and
188 situated in the State of Florida, provided that any such deposits are secured in
189 accordance with the Florida Security for Public Deposits Act, Chapter 280, Florida
190 Statutes. Additionally, the bank shall not be listed with any recognized credit watch
191 information service.

192 b. A maximum of 25% of available funds may be invested in non-negotiable interest
193 bearing time certificates of deposit.

194 c. A maximum of 5% of available funds may be deposited with any one issuer.

195 d. The maximum maturity on any certificate shall be no greater than one year from
196 the date of purchase.

197 (6) *Commercial Paper:*

198 a. Funds may be invested in commercial paper issued by any United States company
199 that is rated, at the time of purchase, "Prime-1" by Moody's, "A-1" by Standard & Poor's
200 or "F-1" by Fitch.

201 b. A maximum of 35% of available funds may be directly invested in prime
202 commercial paper. A maximum of 5% of available funds may be invested with any one
203 issuer. The maximum length to maturity for prime commercial paper shall be 270 days
204 from the date of purchase.

205 (7) *Corporate Notes:*

206 a. Funds may be invested in corporate notes issued by corporations organized and
207 operating within the United States or by depository institutions licensed by the United
208 States that have a long term debt rating, at the time of purchase, at a minimum "Aa" by
209 Moody's, "AA" by Standard & Poor's or "AA" by Fitch.

210 b. A maximum of 10% of available funds may be directly invested in corporate notes.
211 A maximum of 2% of available funds may be invested with any one issuer. The
212 maximum length to maturity for corporate notes shall be three years from the date of
213 purchase.

214 (8) *Bankers' Acceptances:*

215 a. Funds may be invested in bankers' acceptances issued by a domestic bank or a
216 federally chartered domestic office of a foreign bank which are eligible for purchase by
217 the Federal Reserve System if, at the time of purchase, the short-term paper is rated, at
218 a minimum, "P-1" by Moody's Investors Services and "A-1" by Standard & Poor's.

219 b. A maximum of 35% of available funds may be directly invested in Bankers'
220 acceptances. A maximum of 10% of available funds may be invested with any one
221 issuer's acceptances. The maximum length to maturity for Bankers' acceptances shall
222 be 180 days from the date of purchase.

223 (9) *State and/or Local Government Taxable and/or Tax-Exempt Debt:*

224 a. Funds may be invested in state and/or local government taxable and/or tax-exempt
225 debt, general obligation and/or revenue bonds, rated at least "Aa" by Moody's and "AA"
226 by Standard & Poor's or "AA" by Fitch for long-term debt, or rated at least "MIG- 1" by
227 Moody's and "SP-1" by Standard & Poor's for short-term debt.

228 b. A maximum of 20% of available funds may be invested in taxable and tax-exempt
229 debts. A maximum length to maturity for an investment in any state or local government
230 debt security is three years from the date of purchase.

231 (10) *Registered Investment Companies (Money Market Mutual Funds).*

232 a. Funds may be invested in shares in open-end, no-load funds provided such funds
233 are registered under the Federal Investment Company Act of 1940 and operate in
234 accordance with 17 C.F.R. § 270.2a-7, which stipulates that money market funds must
235 have an average weighted maturity of 90 days or less. The prospectus of such funds
236 must indicate that the share value shall not fluctuate. Money market accounts may be
237 invested in direct obligations of the United States government or any agency or federal
238 instrumentality thereof. The money market funds shall be rated "AAAm" or "AAAm-G" or
239 better by Standard & Poor's, or the equivalent by another rating agency.

240 b. A maximum of 75% of available funds may be invested in money market funds. A
241 maximum of 25% of available funds may be invested with any one money market
242 fund.

243 (11) *Master Repurchase Agreement:*

244 a. Funds may be invested in repurchase agreements composed of only those
245 investments based on the requirements set forth by the District's master repurchase

246 agreement. All firms are required to sign the master repurchase agreement prior to the
247 execution of a repurchase agreement transaction. A third-party custodian with whom the
248 District has a current custodial agreement shall hold the collateral for all repurchase
249 agreements with a term longer than one business day. A clearly marked receipt that
250 shows evidence of ownership must be supplied to the District and retained.

251 b. Securities authorized for collateral are negotiable direct obligations of the United
252 States government, government agencies, and Federal instrumentalities with maturities
253 under five years and must have a market value for the principal and accrued interest of
254 102% of the value for the term of the repurchase agreement. Immaterial short-term
255 deviations from the 102% requirement are permissible only upon the approval of the
256 Treasurer.

257 (12) *Hedging Instruments:*

258 a. Interest rate swaps, interest rate exchange agreements, investment contracts, or
259 contracts providing for payments based on levels of or changes in interest rates, or
260 contracts to exchange cash flows, a series of payments, or to hedge payment rate,
261 spread or similar exposure "Hedging Instruments" are authorized.

262 b. Maturities of up to ten years from the date of execution and delivery of the
263 confirmation or investment are authorized or such longer maturity as otherwise provided
264 by the Governing Board or the governing bond indenture, trust agreement or bond
265 resolution approved by the Governing Board.

266 c. Investment in Hedging Instruments will not be made unless the Chief Financial
267 Officer or designee responsible for making investment decisions have developed
268 sufficient understanding of the Hedging Instruments and have the expertise to manage
269 them.

270 (13) *Reverse Repurchase Agreements:* The District may enter into a reverse
271 repurchase agreement with a primary government dealer, not for the purposes of
272 increased leverage, but for legitimate cash management purposes only. A reverse
273 repurchase can only be used to avoid liquidating a security in order to meet an
274 unexpected or immediate cash flow requirement. The investment shall be limited to
275 transactions in which the proceeds are intended to provide liquidity and for which the
276 District staff has sufficient resources and expertise to manage.

277 (14) *Mortgage Backed Securities:*

278 a. Funds may be invested in Mortgage-Backed Pass throughs guaranteed by
279 the U.S. Government or a Government Sponsored agency, including
280 securities collateralized by the same. A maximum of 30% of available funds
281 may be invested in Mortgage Backed Securities.

282 b. Funds may be invested in Non-Agency mortgage backed securities that
283 maintain a AAA rating. A maximum of 10% of available funds may be
284 invested into non-agency mortgage investments.

285

286 **Sec. 110-87. Maturity and Liquidity Requirements.**

287 (a) To the extent possible, investment maturities will be matched with known cash
288 needs and anticipated cash flow requirements.

289 (b) No security shall have an estimated average return of principal exceeding five
290 years. The weighted average duration of principal return for the portfolio as a whole
291 shall be no more than three years.

292 (c) These restrictions shall be modified for adjustable rate and mortgage-backed
293 securities where the stated final maturities of the collateral may be up to 30 years. The
294 individual securities will still have an estimated average return of principal not to exceed
295 five years.

296

297 **Sec. 110-88. Risk and Diversification.**

298 Assets held shall be diversified to the extent practicable to control the risk of loss
299 resulting from over-concentration of assets in a specific maturity, issuer, instrument,
300 dealer, or bank through which financial instruments are bought and sold. Diversification
301 strategies within the established guidelines shall be reviewed and revised periodically.

302

303 **Sec. 110-89. Authorized Investment Institutions and Dealers.**

304 (a) The District staff shall maintain a list of financial institutions and broker/dealers
305 that are approved for investment purposes ("Qualified Institutions"). Only firms meeting
306 the following requirements will be eligible to serve as Qualified Institutions:

- 307 1) "primary" dealers and regional dealers that qualify under Securities and
308 Exchange Commission Rule 15C3-1 (uniform net capital rule);
309 2) capital of no less than \$10,000,000;
310 3) registered as a dealer under the Securities Exchange Act of 1934;
311 4) member of the National Association of Dealers (NASD);
312 5) registered to sell securities in Florida; and
313 6) the firm and assigned broker have been engaged in the business of effecting
314 transactions in U.S. government and agency obligations for at least five (5)
315 consecutive years.

316

317 (b) All brokers, dealers and other financial institutions deemed to be Qualified
318 Institutions shall be provided with current copies of the District's Investment Policy. A
319 current audited financial statement is required to be on file for each financial institution
320 and broker/dealer with which the District transacts business.

321 (c) District staff shall only enter into repurchase and/or reverse repurchase
322 agreements with financial institutions that are primary securities dealers as designated
323 by the Federal Reserve Bank of New York.

324 (d) All securities dealers will be required to sign a letter stating that they have read,
325 understand, and will adhere to the District's investment policy prior to conducting
326 business with the District.

327

328 **Sec. 110-90. Third Party Custodial Agreements.**

329 (a) All securities shall be held with a third party custodian, and all securities
330 purchased by, and all collateral obtained by, the District should be properly designated
331 as an asset of the District. The securities must be held in an account separate and apart
332 from the assets of the financial institution.

333 (b) A "third party custodian" is defined as any bank depository chartered by the
334 Federal government, the State of Florida, or any other state or territory of the United
335 States which has a branch or principal place of business in the State of Florida as
336 defined in Section 658.12, Florida Statutes, or by a national association organized and

337 existing under the laws of the United States which is authorized to accept and execute
338 trusts and which is doing business in the State of Florida.

339 (c) The Executive Director shall designate an individual or individuals that will
340 approve, on behalf of the District, third party custodial agreement(s) with its bank(s) and
341 depository institution(s). Such agreements may include letters of authority from the
342 District, details as to the responsibilities of each party, method of notification of security
343 purchases, sales and delivery, procedures related to repurchase agreements and wire
344 transfers, safekeeping and transaction costs, procedures in case of wire failure or other
345 unforeseen mishaps, and describing the liability of each party.

346 (d) The custodian shall accept transaction instructions only from those persons who
347 have been duly authorized by the District, which authorizations have been provided, in
348 writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made
349 from safekeeping, unless by such a duly authorized person.

350 (e) The custodian shall provide the District with safekeeping receipts that provide
351 detailed information on the securities held by the custodian. Security transactions
352 between a broker/dealer and the custodian involving the purchase or sale of securities
353 by transfer of money or securities must be made on a "delivery vs. payment" basis, if
354 applicable, to ensure that the custodian will have the security or money, as appropriate,
355 in hand at the conclusion of the transaction. Securities held as collateral shall be held
356 free and clear of any liens.

357

358 **Sec. 110-91. Bid Requirement.**

359 (a) After District staff has determined the approximate maturity date based on cash
360 flow needs and market conditions and has analyzed and selected one or more optimal
361 types of investments, a minimum of three qualified banks and/or approved
362 brokers/dealers must be contacted and asked to provide bids/offers on the securities in
363 question. Bids will be held in confidence until the bid deemed to best meet the
364 investment objectives is determined and selected.

365 (b) In certain circumstances, if obtaining bids/offers is not feasible and appropriate,
366 securities may be purchased utilizing the comparison to current market price method on

367 an exception basis. Acceptable current market price providers include, but are not
368 limited to:

369 (1) Bloomberg Information Systems.

370 (2) The Wall Street Journal or a comparable nationally recognized financial
371 publication providing daily market pricing.

372 (3) Daily market pricing provided by the District's custodian or its correspondent
373 institutions.

374 (c) The District staff shall utilize the competitive bid process to select the securities to
375 be purchased or sold. Selection by comparison to a current market price, as indicated
376 above, shall only be utilized when, in the judgment of District staff, competitive bidding
377 would inhibit the selection process. Examples of when this method may be used
378 include:

379 (1) When time constraints due to unusual circumstances preclude the use of the
380 competitive bidding process.

381 (2) When no active market exists for the issue being traded due to the age or depth of
382 the issue.

383 (3) When a security is unique to a single dealer.

384 (4) When the transaction involves new issues or issues in the "when issued" market.

385 (5) When a specific issue mortgage backed security has been identified through
386 careful analysis by staff as beneficial to the overall investment strategy but is currently
387 only available through a single dealer.

388

389 **Sec. 110-92. Sale of Securities.**

390 (a) Investments should be made subject to the cash flow needs of the District, and
391 such cash flows are subject to revisions as market conditions and the District's needs
392 change. However, when the invested funds are needed, in whole or in part, for the
393 purpose originally intended or for more optimal investments, investments may be sold at
394 the then-prevailing market price and the proceeds placed into the proper account at the
395 District's custodian. District staff is responsible for monitoring market conditions to
396 evaluate the proper timing and conditions under which an investment sale may occur.

397 (b) On occasion, it may be considered prudent and in the best interest of the District
398 to sell an investment security and re-invest into a similar investment. These trades may
399 be done in order to improve the investment yield, target duration, or credit risk of the
400 portfolio. For these transactions, a loss may be incurred for accounting purposes in
401 order to achieve optimal investment return.

402

403 Sec. 110-93. Performance Measurement.

404 (a) In order to assist in the evaluation of the portfolios' performance, the District will
405 use nationally recognized performance benchmarks for the Short-Term and Long-Term
406 portfolios. The use of benchmarks will allow the District to measure its returns against
407 other investors in the same markets. Performance calculations will not include any
408 balances invested in the overnight sweep accounts. A benchmark should not be chosen
409 which will induce the investment officer to take on undue risk in order to outperform the
410 benchmark.

411 (b) A nationally recognized Money Market Fund Index, such as the Standard and
412 Poor's Governmental Investment Pool Index/Government will be used as a benchmark
413 as compared to the portfolios' net book value rate of return for current operating funds
414 (short-term portfolio).

415 (c) Investment performance of the Long-Term Portfolio will be compared to the
416 Merrill Lynch's 1-3 Year United States Treasury Index or an equivalent index comprised
417 of U. S. Treasury or Government securities. The appropriate index will have a duration
418 and asset mix that approximates the portfolio and will be utilized as a benchmark to be
419 compared to the portfolio's total rate of return.

420 ~~(a)~~—

421

422 Sec. 110-94. Reporting.

423 (a) The Accounting Division shall be provided timely transaction data as necessary to
424 record and to document investment activity.

425 (b) On an quarterly basis, the Treasurer shall prepare and submit to the District's
426 Governing Board a written report on all invested funds. The report shall provide all, but
427 not limited to, the following: a complete list of all invested funds, name or type of

428 security in which the funds are invested, the amount invested, the maturity date, earned
429 income, the book value, the market value and the yield on each investment. The annual
430 report will show performance on both a book value and total rate of return basis and will
431 compare the results to the above-stated performance benchmarks. All investments
432 shall be reported at fair value per GASB standards. Investment reports shall be
433 available to the public.

434

435 (c)

436

437 Sec. 110-95. Continuing Education.

438 All appropriate District staff shall annually complete eight hours of continuing education
439 in subjects or courses of study related to investment practices and products.

440

441 Secs. 110-96--110-120. Reserved.

442

443

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445

446

447 **Section 2.** Inclusion of Section 1 of this resolution in the District Policy Code is
448 authorized and directed.

449 **Section 3.** If any section, subsection, subdivision, paragraph, sentence, clause
450 or phrase of this resolution is for any reason held to be unconstitutional or invalid or
451 ineffective by any court of competent jurisdiction, such decision shall not affect the
452 validity or effectiveness of the remaining portions of this resolution.

453 **Section 4.** This resolution shall take effect immediately on adoption.

454

455 **PASSED and ADOPTED** this ___ day of _____, 2008.

456

457

458

**SOUTH FLORIDA WATER MANAGEMENT
DISTRICT, BY ITS GOVERNING BOARD**

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469
470

By:

Chairman

ATTEST

District Clerk

Approved as to form:

BY: _____

Office of Counsel